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FM AMEMBASSY ASHGABAT

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C O N F I D E N T I A L ASHGABAT 001029

SIPDIS

STATE FOR SCA/CEN; EEB
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E.O. 12958: DECL: 8/14/2019

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SUBJECT: WINTERSHALL REPORTS SLOW MOVEMENT BY TURKMEN FOR
NEW DEAL

REF: ASHGABAT 291

Classified By: Charge Richard Miles, reasons 1.4 (b) and (d).

¶1. (C) German energy company Wintershall's general manager, Kal Sandhu, updated Economic Officer on his company's prospects August 12. Sandhu stated that Wintershall is winding down a PSA signed in 2002 after drilling two dry holes in block 12 of the Caspian (reftel), and has made slow progress on a new deal with the Turkmen. Sandhu explained that Wintershall drilled the second hole in 2008, knowing that it would come back dry, but did so to gain GOTX support for future deals either offshore or onshore. He added that Wintershall used state of the art equipment and the latest environmentally friendly techniques to drill the second hole, at great expense to Wintershall. He expressed hope that the decision to drill the second hole made a lasting impression with the Turkmen, allowing Wintershall to strike another deal in the future.

¶2. (C) Sandhu noted that most Western energy companies, who are serious about doing business in Turkmenistan, employ a wait and see strategy that normally includes opening an office in Ashgabat and having an experienced person on the ground at all times. Despite Wintershall's efforts, he added, so far the GOTX has moved little toward a new deal. Moreover, he opined that the Chinese company CNPC and Malaysian giant Petronas seem to have identified what the GOTX wants and are moving forward on new deals, while most Western companies are sitting and waiting.

¶3. (C) Sandhu recounted the many hours he spent over the last two years building relationships with Turkmen government officials, and starting over once key officials were fired with little warning. He stated that the Soviet model of business remains the GOTX's only commercial paradigm as no other system has been allowed into the country. In true Soviet tradition, he added, Turkmenistan has not revamped the energy sector infrastructure and has failed to increase its energy sector capacities to match Turkmenistan's potential hydrocarbon output. He underscored that Turkmenistan's self-imposed isolation, mixed with a Soviet business mentality, has created a climate of distrust toward Western

companies that is not likely to change anytime soon.

¶4. (C) Nevertheless, Sandhu believed that if economic conditions worsen in the country, the GOTX might be forced to reconsider the current ban on onshore deals with foreign companies, while increasing offshore PSAs as well. Although Sandhu did not think such changes would happen anytime soon, he stressed that Wintershall planned to stay in Ashgabat, vigilantly awaiting any sign from the GOTX that it is ready to do business again.

¶5. (C) COMMENT. Wintershall should have several advantages in landing a deal with the Turkmen; Germany is a preferred commercial partner; Wintershall is not an intimidating international behemoth; and it showed commitment to Turkmenistan, maintaining a local office, establishing contacts and going the extra yard to explore the potential of its dry offshore block. Its difficulty in landing a new deal is a fair warning to other, perhaps less committed, foreign companies about what to expect when trying to break into the Turkmen hydrocarbon sector. END COMMENT.

MILES